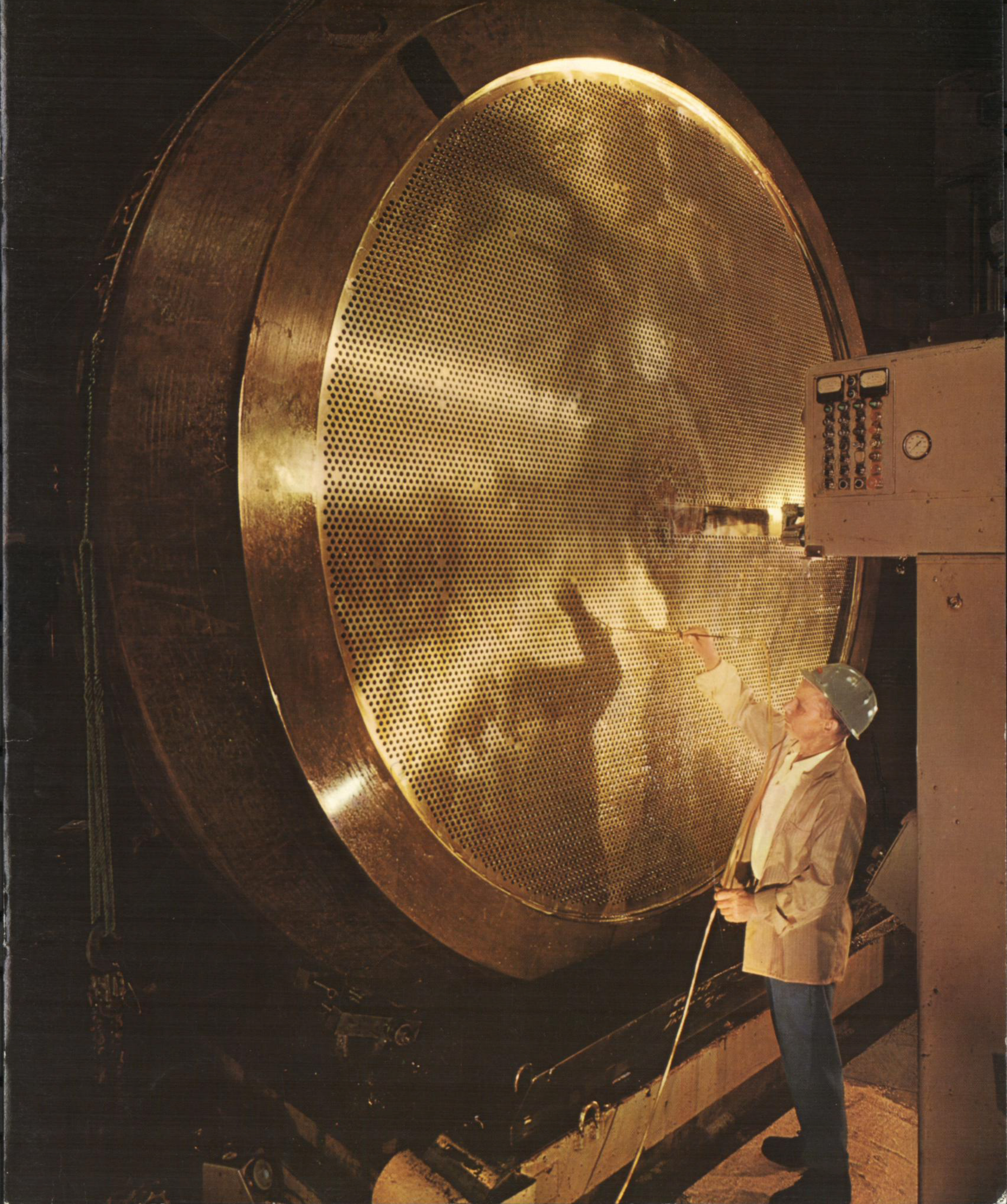
The Babcock & Wilcox Company / Annual Report 1968



The Babcock & Wilcox Company

Incorporated in 1881 from a partnership formed in 1867.

Babcock & Wilcox is a major producer of capital goods, including steam generating equipment, nuclear systems and components, equipment for air and water pollution control and for cleaning heat transfer surfaces, meters and controls, systems for process automation, automated production machinery, steel tubular products and refractories.

Directors

†A. G. PRATT, Chairman Emeritus
M. NIELSEN, Chairman
GEORGE G. ZIPF, President
W. O. BAKER
JOHN L. BURNS
R. J. CANTWELL
WALTHER H. FELDMANN
J. ROY GORDON
GEORGE C. KERN, JR.
†STODDARD M. STEVENS
B. A. TOMPKINS
J. C. TRAPHAGEN

†Honorary Directors

Officers

Chairman

M. NIELSEN

President and Chief Executive Officer

GEORGE G. ZIPF

Vice Presidents

*R. A. BARR, Refractories Division
*R. J. CANTWELL, Finance & Accounting Division
*CARL CLAUS, Staff Division
A. T. FRAGOMEN, Manufacturing, Power Generation Division
R. H. HARRISON, President's Staff
G. W. KESSLER, Engineering, Power Generation Division
*G. W. KROSS, JR., Tubular Products Division
S. T. MACKENZIE, National Sales, Power Generation Division
W. H. ROWAND, Nuclear Power, Power Generation Division
*A. P. TABER, Research and Development Division
L. B. WOHLGEMUTH, Sales, Tubular Products Division
C. T. SMITH, Assistant Vice President, Sales, Power Generation Division

**Division Heads*

Controller

H. D. KENNEY

Treasurer

W. P. CATTERSON

Secretary

MARTIN VICTOR

General Offices

161 East 42nd Street, New York, N.Y. 10017

Stock Transfer Agent

BANKERS TRUST COMPANY, 16 Wall Street, New York, N.Y. 10015

Registrar

THE BANK OF NEW YORK, 48 Wall Street, New York, N.Y. 10015

General Counsel

SULLIVAN & CROMWELL, 48 Wall Street, New York, N.Y. 10005

Auditors

PRICE WATERHOUSE & CO., 60 Broad Street, New York, N.Y. 10004

Stock Listed

NEW YORK STOCK EXCHANGE and PACIFIC COAST STOCK EXCHANGE

Notice to Stockholders

The Annual Meeting of Stockholders will be held at 10 A.M., Wednesday, April 23, 1969, in the Biltmore Hotel, New York City. A formal notice of the meeting with a proxy statement and form of proxy will be mailed to each stockholder March 14.

The Babcock & Wilcox Company

Eighty-eighth Annual Report for the year ended December 31, 1968

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Cover Photo: Representative of the magnitude of machining operations required on nuclear system components is this tube sheet for a heat exchanger. There are 16,000 holes in the unit which were drilled through 14 inches of steel within an accuracy of six thousandths of one inch.

1968 Highlights

	1968	1967
TOTALS		
Orders received	$ 911,082,000	$1,099,295,000
Unfilled orders	1,653,595,000	1,390,127,000
Sales (on percentage of completion method for long-term contracts)	647,613,000	624,723,000
Income before taxes and minority interests	49,694,000	61,245,000
U.S. and foreign taxes on income	23,710,000	27,260,000
Net income for the year	25,242,000	33,215,000
Cash dividends declared	16,726,000	16,681,000
Expenditures for property, plant and equipment	37,388,000	33,509,000
Depreciation of plant and equipment	10,934,000	16,436,000
Working capital	214,728,000	180,735,000
Stockholders' equity	288,243,000	279,727,000
Number of employees at year end	32,371	30,668
Number of common stockholders at year end	26,269	23,612
Number of common shares issued at year end	12,366,626	12,366,626
PER COMMON SHARE ISSUED*		
Net income for the year	$ 2.04	$ 2.69
Cash dividends declared	1.36	1.36
Stockholders' equity	23.31	22.62

*Per share amounts are based on common shares issued at December 31, 1968, including shares held in the treasury for the stock option plans.

Letter to Stockholders

To The Stockholders of The Babcock & Wilcox Company:

In 1968 the Company earned $25,242,000 or $2.04 per share on shipments of $647,613,000. Earnings for 1967 were $2.69 per share on shipments of $624,723,000. The Federal income tax surcharge effective January 1 decreased 1968 earnings $.18 per share. A change in depreciation policy from an accelerated to a straight-line method increased earnings $.28 per share.

All areas of the Company were profitable in 1968 with the exception of atomic energy. The nuclear power business is now beginning to achieve a significant volume and, as it matures and initial losses are absorbed, we expect our investment in this field to begin making a worthwhile contribution to earnings.

Performance on nuclear contracts was affected by several factors during the year. Scheduling difficulties arose because the surge in nuclear work occurred sooner than had been foreseen in the most optimistic industry forecasts. Vendor deliveries of critical machinery were late and some new facilities had to be placed into operation with limited break-in periods. We also had a high volume of first-of-a-kind nuclear work in production and, in addition, experienced a shortage of personnel with the advanced skills needed for this exacting work, especially in machining and welding.

Several steps have been taken to improve performance. First, we are continuing to accelerate our capital expenditures for nuclear facilities and machinery. Second, new production processes and more effective techniques have been and are being developed to manufacture nuclear pressure vessels that are of unprecedented size, complexity, and quality. Third, production schedules are being improved by the establishment of a temporary production facility at Madison, Indiana, and by subcontracting parts to qualified suppliers. Fourth, employee recruitment and training activity has been expanded.

We expect that production efficiency will improve during 1969 and that schedules will be approaching normal by the end of the year.

Earnings in 1968 were also reduced by the impact of the labor settlement in the steel industry, by a less favorable product mix caused by imports of foreign tubing and by prolonged strikes in three plants. The Rochester plant of Detroit Broach was closed for five weeks and the Lancaster plant of Diamond Power for seven weeks. The Alliance plant of the Tubular Products division was closed from October 1, 1968 to January 19, 1969.

The approximate distribution of our 1968 and 1967 shipments by industry was as follows:

	1968	1967
Electric Utilities	43%	42%
Government	13	9
Warehouses and Distributors	11	9
Machinery	10	9
Transportation	6	6
Primary Metals	4	4
Chemical and Petroleum	2	4
Pulp and Paper	2	7
Fabricated Metal Products	2	3
Miscellaneous	7	7
	100%	100%

There was a high level of activity during the year in all the markets served by the Company, and new orders totaled $911,082,000.

Among the orders received from U. S. electric utilities in 1968 were 3 nuclear systems totaling 2,600,000 kilowatts and 24 fossil fuel systems for 10,500,000 kilowatts. The total installed generating capability in the United States is expected to increase from approximately 300,000,000 kilowatts

(continued on following page)

M. Nielsen, Chairman of the Board; George G. Zipf, President and Chief Executive Officer.

at the end of 1968 to 600,000,000 kilowatts in 1978. New capacity must therefore be installed at the average annual rate of 30,000,000 kilowatts over the next ten years, and it is apparent that the demand for nuclear and fossil fuel steam generating equipment will remain strong throughout the foreseeable future. The nuclear fuel business, a major new diversification for the Company, has grown to substantial proportions.

Although fluctuations may occur in the volume of annual orders placed by utilities, we expect our shipments of steam generating equipment will be at an increasing rate over the next several years. The outlook for a steady increase in sales of package and other industrial boilers is also encouraging.

The good prospects for steam generating equipment enhance the opportunities for sales of Diamond Power's cleaning equipment and nuclear control rod drives, as well as for Bailey Meter's computerized control systems. Thirteen Bailey 855 computer systems have been sold for utility installations, and Bailey is now introducing that design to the industrial process control field.

Present trends indicate continued demand for tubular products, refractories and ceramic fibers. There is increasing activity in automatic transfer equipment, broaching machines and tracer lathes.

The backlog at the end of 1968 increased to $1,653,595,000 compared with $1,390,127,000 at the end of 1967. A major portion of the backlog consists of nuclear and fossil fuel steam generating equipment and nuclear fuel scheduled for shipment in 1970 and later years.

Capital expenditures are being substantially increased in all units of the Company to handle our growing business. They are expected to average approximately $40,000,000 per year for the next three years, compared with an annual average of $35,000,000 for the past three years.

On October 20 the Company lost a valued director and officer with the death of J. P. Craven, Vice President in charge of the Power Generation division, who made many contributions during his 40 years of service.

Two new directors, John L. Burns and George C. Kern, Jr., were elected at the board meeting on November 27. At the same time, A. G. Pratt and Stoddard M. Stevens were named honorary directors.

Mr. Pratt joined B&W in 1903, was named a director in 1915, and served as president from 1924 to 1948, when he became chairman. He was elected chairman emeritus in 1965. His long and distinguished career coincided with a period of great historic change in the nation during which he guided the Company's growth from a small boiler manufacturer into a large, diversified industrial concern. B&W continues to move forward in the spirit of integrity and service which he exemplifies. Mr. Stevens, a partner in the law firm of Sullivan & Cromwell, the Company's counsel, has served with distinction as a director since 1950.

The Company's diversified products cover a broad range of markets which have a growing need for equipment with high technological content in manufacturing and performance. As described later in this Report, the planning now under way, the personnel being trained and the problems being solved, all lay the basis for continued penetration of these markets and a profitable atomic energy business in the 1970's.

We wish to express our appreciation for the continued support of our valued customers and to acknowledge the fine contribution made during the year by dedicated employees at all levels in the Company.

M. Nielsen. George G. Zipf

M. Nielsen
Chairman of the Board

George G. Zipf
President and Chief Executive Officer

February 27, 1969

Consolidated Statement of Income & Retained Earnings

	For the Calendar Year	
	1968	1967
Sales (on percentage of completion method for long-term contracts)	**$647,613,025**	$624,723,003
Costs and expenses:		
Costs and operating expenses	**550,098,270**	513,268,358
Selling, general and administrative expenses	**34,424,700**	32,666,569
Depreciation of plant and equipment (Note 3)	**10,933,521**	16,435,987
	595,456,491	562,370,914
Income from operations	**52,156,534**	62,352,089
Income from investments and marketable securities	**928,571**	305,730
Interest expense	**(3,391,241)**	(1,412,381)
Income before taxes and minority interests	**49,693,864**	61,245,438
U.S. and foreign taxes on income (Notes 2 and 3)	**23,710,000**	27,260,000
	25,983,864	33,985,438
Income applicable to minority interests	**(741,635)**	(770,173)
Net income for the year (per share: 1968—$2.04; 1967—$2.69)	**25,242,229**	33,215,265
Cash dividends declared	**16,726,404**	16,680,886
Remainder added to retained earnings	**8,515,825**	16,534,379
Retained earnings at beginning of year	**197,395,927**	180,861,548
Retained earnings at end of year	**$205,911,752**	$197,395,927

Consolidated Statement of Source and Application of Funds

	For the Calendar Year	
	1968	1967
WORKING CAPITAL AT BEGINNING OF YEAR	**$180,735,127**	$156,721,418
SOURCES:		
Net income	**25,242,229**	33,215,265
Depreciation	**10,933,521**	16,435,987
Net increase in noncurrent indebtedness	**44,800,000**	25,800,000
Net increase in noncurrent deferred income taxes	**3,925,000**	
	84,900,750	75,451,252
APPLICATIONS:		
Additions to property, plant and equipment	**37,388,445**	33,508,957
Cash dividends declared	**16,726,404**	16,680,886
Net increase (decrease) in noncurrent receivables	**(1,612,259)**	1,547,266
Other (net)	**(1,595,122)**	(299,566)
	50,907,468	51,437,543
NET INCREASE IN WORKING CAPITAL	**33,993,282**	24,013,709
WORKING CAPITAL AT END OF YEAR	**$214,728,409**	$180,735,127

Consolidated Balance Sheet

	At December 31	
ASSETS	**1968**	1967
CURRENT ASSETS		
Cash	**$ 16,198,612**	$ 12,839,253
Marketable securities, at cost (approximate market)	**1,265,724**	5,296,835
Accounts receivable	**98,984,964**	85,525,072
Unbilled sales (Note 2)	**67,071,328**	47,841,142
Inventories, at lower of cost or market (less advance payments on contracts: 1968—$44,622,993; 1967—$23,522,479)	**160,300,471**	138,624,828
TOTAL CURRENT ASSETS	**343,821,099**	290,127,130
NONCURRENT RECEIVABLES	**2,016,649**	3,628,908
INVESTMENTS, at cost	**340,514**	341,751
PROPERTY, PLANT AND EQUIPMENT, at cost less accumulated depreciation and amortization: 1968—$168,918,144; 1967—$158,902,337	**165,637,835**	139,414,636
PREPAID EXPENSES AND OTHER ASSETS	**4,216,705**	5,156,948
TOTAL ASSETS	**$516,032,802**	$438,669,373
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable and current portion of long-term debt	**$ 6,760,672**	$ 3,658,218
Accounts payable and accrued liabilities	**98,228,746**	80,280,711
Cash dividends payable	**4,183,934**	4,175,760
U.S. and foreign income taxes	**19,919,338**	21,277,314
TOTAL CURRENT LIABILITIES	**129,092,690**	109,392,003
NONCURRENT INDEBTEDNESS		
Bank loan agreement	**75,000,000**	28,000,000
Notes payable	**12,200,000**	14,400,000
DEFERRED INCOME TAXES	**3,925,000**	
MINORITY INTERESTS IN SUBSIDIARY COMPANIES	**7,571,933**	7,150,016
TOTAL LIABILITIES	**227,789,623**	158,942,019
STOCKHOLDERS' EQUITY		
Capital Stock:		
Preferred, cumulative, no par; authorized and unissued 2,000,000 shares		
Common, par value $4.50; authorized 18,000,000 shares, issued 12,366,626 shares (amounts include $26,681,610 excess over par value-capital surplus)	**82,331,427**	82,331,427
Retained earnings	**205,911,752**	197,395,927
TOTAL STOCKHOLDERS' EQUITY	**288,243,179**	279,727,354
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$516,032,802**	$438,669,373

Opinion of Independent Accountants

To the Stockholders and Directors of The Babcock & Wilcox Company:

In our opinion, the accompanying consolidated balance sheet and statements of income and retained earnings and source and application of funds present fairly the financial position of The Babcock & Wilcox Company and its subsidiaries at December 31, 1968, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, which we approve, in the method of computing depreciation described in Note 3. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

New York, N.Y., February 26, 1969

Notes to Consolidated Financial Statements

Note 1—Principles of Consolidation:

The financial statements include The Babcock & Wilcox Company and all subsidiary companies.

The accounts of foreign subsidiaries have been translated into U.S. dollars at current rates of exchange, except for property, plant and equipment which has been translated at appropriate historical rates.

Note 2—Inventories:

The consolidated inventories at December 31, 1968 are summarized below:

Raw materials and supplies	$ 61,634,000
Work in process	134,534,000
Finished products	8,755,000
	204,923,000
Less: Advance payments	44,623,000
	$160,300,000

Inventories are stated generally at the lower of cost or market. Other than for long-term contracts, cost is determined on the average or first-in, first-out basis for raw materials and supplies and accumulated production costs for work in process and finished products.

With respect to long-term contracts, the Company records sales and cost of sales by the percentage of completion method related principally to shipments or, in the case of nuclear contracts, to incurred direct labor. The costs recorded on uncompleted individual long-term contracts within each fiscal period are based upon estimates to complete. These cost estimates are reviewed periodically as the work progresses and adjustments, if any, proportionate to the percentage of completion are reflected in the period when such estimates are revised. The completed contract method is followed for income tax purposes and provision is made currently for tax payments thereby delayed (1968—$10,261,000; 1967—$8,072,000).

Note 3—Property, Plant and Equipment:

Fixed assets which are carried at cost less accumulated depreciation may be summarized as follows:

Land	$ 11,949,000
Buildings	84,030,000
Machinery and Equipment	216,161,000
Construction in progress	22,416,000
	334,556,000
Accumulated depreciation	168,918,000
	$165,638,000

Effective January 1, 1968 the Company adopted, for financial accounting purposes, the straight-line method of computing depreciation on equipment, while continuing accelerated methods for income tax purposes with appropriate deferral of income tax ($3,925,000). As a result of the change, net earnings for the year ended December 31, 1968 were increased $3,501,000 or $.28 a share.

Provisions for federal taxes on income reflect deductions for the tax investment credit of $1,312,000 in 1968 and $1,734,000 in 1967.

Note 4—Noncurrent Indebtedness:

Noncurrent indebtedness at December 31, 1968 consisted of $75,000,000 borrowed under a bank loan agreement and $12,200,000 borrowed under notes payable. Additionally, $2,200,000 is included in current liabilities.

Under a loan agreement with several banks, as amended in February, 1969, the Company has the option to borrow up to $150,000,000 through December 31, 1970 at the prime rate. The outstanding amounts borrowed are convertible upon election of the Company prior to December 31, 1970 into term loans payable quarterly over a 48-month period with interest at ¼ of 1% in excess of the then prime rate.

Notes payable ($4,040,000 at 3⅝% and $10,360,000 at 3⅞%) are due in annual installments of $2,200,000 payable on June 1, 1969 through 1973 with a final installment of $3,400,000 payable in 1974.

Note 5—Pensions:

The Company has several pension plans, principally noncontributory, covering substantially all employees. The total pension expense funded and charged to income in 1968 was $9,103,000 which includes amortization of prior service cost over a period of forty years. The unfunded prior service cost at December 31, 1968 was approximately $47,000,000.

Note 6—Stock Options:

Transactions in 1968 under the stock option plans approved by the stockholders in 1958 and 1963 are summarized as follows:

	Shares	
	1958 Plan	1963 Plan
Options outstanding on January 1, 1968	59,090	162,545
Options granted	—	155,100
Options exercised	(17,400)	(7,016)
Options lapsed	(2,594)	(10,265)
Options outstanding on December 31, 1968	39,096	300,364

No further options may be granted under either plan.

Income & Retained Earnings

Ten-Year Comparison (in thousands of dollars)

For the Calendar Year	**1968**	1967	1966	1965
Sales (on percentage of completion method for long-term contracts)	**$647,613**	$624,723	$561,627	$481,600
Costs and expenses except depreciation	**584,522**	545,935	485,628	412,487
Depreciation and amortization	**10,934**	16,436	14,778	13,519
	595,456	562,371	500,406	426,006
Income from operations	**52,157**	62,352	61,221	55,594
Income from investments and marketable securities	**928**	305	2,095	1,461
Interest expense	**(3,391)**	(1,412)	(838)	(715)
Income before taxes and minority interests	**49,694**	61,245	62,478	56,340
U.S. and foreign taxes on income	**23,710**	27,260	28,710	26,060
	25,984	33,985	33,768	30,280
Income applicable to minority interests	**(742)**	(770)	(766)	(830)
Net income for the year	**25,242**	33,215	33,002	29,450
Equity in earnings of subsidiary prior to obtaining majority control				
	25,242	33,215	33,002	29,450
Cash dividends declared	**16,726**	16,681	15,313	13,458
Remainder added to retained earnings	**8,516**	16,534	17,689	15,992
Retained earnings at beginning of year	**197,395**	180,861	163,172	147,180
Retained earnings at end of year	**$205,911**	$197,395	$180,861	$163,172

Source and Application of Funds

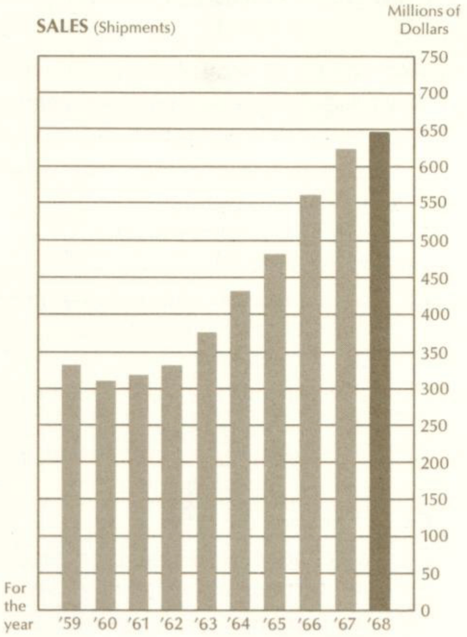
Ten-Year Comparison (in thousands of dollars)

For the Calendar Year	**1968**	1967	1966	1965
WORKING CAPITAL AT BEGINNING OF YEAR	**$180,735**	$156,721	$163,400	$137,710
SOURCES:				
Net income	**25,242**	33,215	33,002	29,450
Depreciation and amortization	**10,934**	16,436	14,778	13,519
Net increase (decrease) in noncurrent indebtedness	**44,800**	25,800	(2,200)	
Net increase in noncurrent deferred income taxes	**3,925**			
Working capital of subsidiary initially consolidated				
	84,901	75,451	45,580	42,969
APPLICATIONS:				
Additions to property, plant and equipment	**37,388**	33,509	34,807	19,610
Cash dividends declared	**16,726**	16,681	15,313	13,458
Net increase (decrease) in noncurrent receivables	**(1,612)**	1,547	1,695	(13,535)
Other (net)	**(1,594)**	(300)	444	(2,254)
	50,908	51,437	52,259	17,279
NET INCREASE (DECREASE) IN WORKING CAPITAL	**33,993**	24,014	(6,679)	25,690
WORKING CAPITAL AT END OF YEAR	**$214,728**	$180,735	$156,721	$163,400

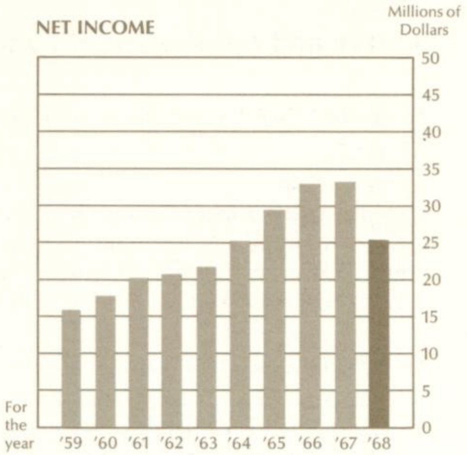
Statistics

	1968	1967	1966	1965
Income from operations before taxes—% of sales	**8.1%**	10.0%	10.9%	11.5%
Net income for year—% stockholders' equity first of year	**9.0%**	12.6%	13.4%	12.8%
Orders received—thousands of dollars	**$ 911,082**	$1,099,295	$840,064	$651,195
Unfilled orders—thousands of dollars	**$1,653,595**	$1,390,127	$915,555	$637,118
Common shares issued during year: Stock dividend				
Stock split				
Common shares issued end of year	**12,366,626**	12,366,626	12,366,626	12,366,626
Per common share issued (adjusted for stock dividends and stock splits—12,366,626 shares):				
Income for year	**$ 2.04**	$ 2.69	$ 2.67	$ 2.38
Cash dividends declared	**1.36**	1.36	1.25	1.10
Stockholders' equity	**23.31**	22.62	21.28	19.85

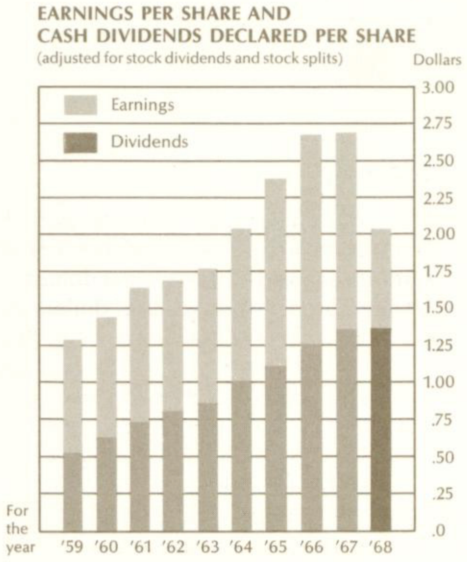
1964	1963	1962	1961	1960	1959
$430,957	$377,684	$330,574	$319,353	$310,999	$332,071
370,335	321,392	277,245	268,721	266,749	291,058
12,825	11,227	10,335	8,673	8,543	7,650
383,160	332,619	287,580	277,394	275,292	298,708
47,797	45,065	42,994	41,959	35,707	33,363
2,224	2,035	2,068	2,283	2,011	1,509
(750)	(834)	(952)	(1,120)	(1,218)	(1,218)
49,271	46,266	44,110	43,122	36,500	33,654
23,480	24,240	23,000	22,580	18,380	17,430
25,791	22,026	21,110	20,542	18,120	16,224
(595)	(279)	(250)	(301)	(303)	(286)
25,196	21,747	20,860	20,241	17,817	15,938
1,030					
26,226	21,747	20,860	20,241	17,817	15,938
12,211	10,480	9,759	8,849	7,632	6,435
14,015	11,267	11,101	11,392	10,185	9,503
133,165	121,898	110,797	99,405	89,220	79,717
$147,180	$133,165	$121,898	$110,797	$ 99,405	$ 89,220


SALES (Shipments)

1964	1963	1962	1961	1960	1959
$119,851	$129,873	$146,524	$137,164	$127,453	$125,038
25,196	21,747	20,860	20,241	17,817	15,938
12,825	11,227	10,335	8,673	8,543	7,650
(2,200)	(2,200)	(2,200)	(4,400)	(2,200)	
5,084					
40,905	30,774	28,995	24,514	24,160	23,588
12,265	23,101	25,662	6,188	6,105	13,183
12,211	10,480	9,759	8,849	7,632	6,435
(1,877)	6,072	9,727			
447	1,143	498	117	712	1,555
23,046	40,796	45,646	15,154	14,449	21,173
17,859	(10,022)	(16,651)	9,360	9,711	2,415
$137,710	$119,851	$129,873	$146,524	$137,164	$127,453


NET INCOME

1964	1963	1962	1961	1960	1959
11.1%	11.9%	13.0%	13.1%	11.5%	10.0%
11.7%	10.6%	10.8%	11.1%	10.4%	9.8%
$525,814	$398,990	$348,907	$361,285	$301,146	$395,540
$467,523	$372,666	$351,360	$333,027	$291,095	$300,948
					61,220
6,183,313					
12,366,626	6,183,313	6,183,313	6,183,313	6,183,313	6,183,313
$ 2.04	$ 1.76	$ 1.69	$ 1.64	$ 1.44	$ 1.29
1.00	.86	.80	.73	.63	.53
18.56	17.43	16.51	15.62	14.70	13.87


EARNINGS PER SHARE AND CASH DIVIDENDS DECLARED PER SHARE
(adjusted for stock dividends and stock splits)

Balance Sheets

Ten-Year Comparison (in thousands of dollars)

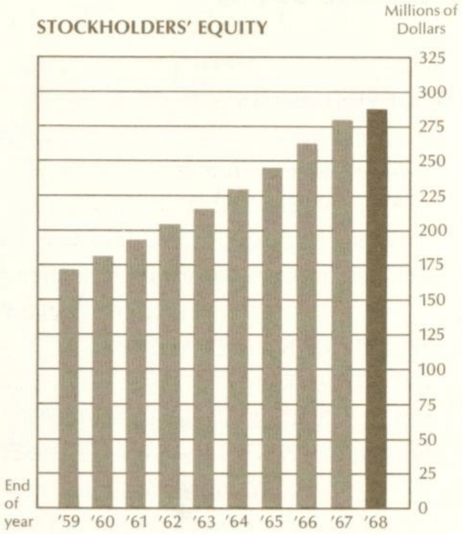
At December 31	**1968**	1967	1966	1965
ASSETS				
CURRENT ASSETS				
Cash	**$ 16,199**	$ 12,839	$ 15,830	$ 14,641
Marketable securities	**1,266**	5,297	16,580	79,117
Accounts receivable	**98,985**	85,525	75,671	40,301
Unbilled sales	**67,071**	47,841	35,136	16,683
Inventories, net of advance payments	**160,300**	138,625	119,396	98,936
TOTAL CURRENT ASSETS	**343,821**	290,127	262,613	249,678
NONCURRENT RECEIVABLES	**2,017**	3,629	2,082	387
INVESTMENTS	**340**	341	447	961
PROPERTY, PLANT AND EQUIPMENT	**165,638**	139,415	122,392	102,476
PREPAID EXPENSES AND OTHER ASSETS	**4,217**	5,157	4,851	3,292
TOTAL ASSETS	**$516,033**	$438,669	$392,385	$356,794
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Notes payable and current portion of long-term debt	**$ 6,761**	$ 3,658	$ 5,776	$
Accounts payable and accrued liabilities	**98,229**	80,281	77,056	63,866
Cash dividends payable	**4,184**	4,176	3,824	3,368
U.S. and foreign income taxes	**19,919**	21,277	19,236	19,044
TOTAL CURRENT LIABILITIES	**129,093**	109,392	105,892	86,278
NONCURRENT INDEBTEDNESS	**87,200**	42,400	16,600	18,800
DEFERRED INCOME TAXES	**3,925**			
MINORITY INTERESTS IN SUBSIDIARY COMPANIES	**7,572**	7,150	6,700	6,212
TOTAL LIABILITIES	**227,790**	158,942	129,192	111,290
STOCKHOLDERS' EQUITY				
Preferred stock authorized and unissued				
Common stock including capital surplus	**82,332**	82,332	82,332	82,332
Retained earnings	**205,911**	197,395	180,861	163,172
TOTAL STOCKHOLDERS' EQUITY	**288,243**	279,727	263,193	245,504
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$516,033**	$438,669	$392,385	$356,794

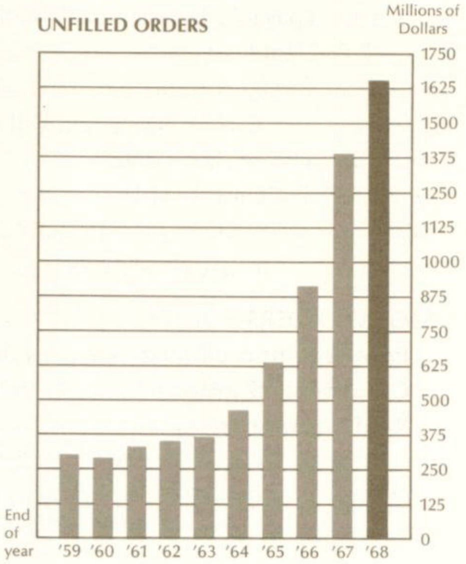
Property, Plant & Equipment

Ten-Year Comparison (in thousands of dollars)

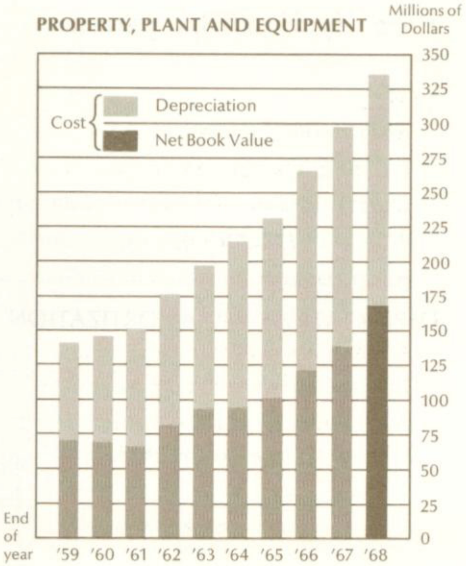
For the Calendar Year	**1968**	1967	1966	1965
COST				
At beginning of year	**$298,317**	$266,404	$232,858	$214,948
Expenditures during year	**37,388**	33,509	34,807	19,610
Other additions—initial consolidation of subsidiaries		444		119
Retired or sold during year	**(1,149)**	(2,040)	(1,261)	(1,819)
At end of year	**334,556**	298,317	266,404	232,858
DEPRECIATION AND AMORTIZATION				
At beginning of year	**158,902**	144,012	130,382	118,583
Charged to operations during year	**10,934**	16,436	14,778	13,519
Accumulated—initial consolidation of subsidiaries		247		29
Accumulated on property retired or sold during year	**(918)**	(1,793)	(1,148)	(1,749)
At end of year	**168,918**	158,902	144,012	130,382
NET BOOK VALUE	**$165,638**	$139,415	$122,392	$102,476

1964	1963	1962	1961	1960	1959
$ 10,591	$ 13,026	$ 9,169	$ 10,771	$ 12,887	$ 9,531
24,549	20,296	41,837	55,889	48,682	29,987
69,197	49,213	49,726	54,218	53,133	59,726
26,777	22,631	17,850	17,453	15,580	21,688
85,430	78,286	67,490	58,399	52,983	52,749
216,544	183,452	186,072	196,730	183,265	173,681
13,922	15,799	9,727			
1,278	2,621	868	1,044	723	604
96,365	95,473	83,679	68,406	70,925	73,390
4,379	4,971	4,759	3,930	4,097	3,472
$332,488	$302,316	$285,105	$270,110	$259,010	$251,147
$	$	$	$ 2,200	$ 2,200	$
56,867	42,546	37,550	29,380	28,706	32,239
3,056	2,622	2,434	2,443	2,135	1,832
18,911	18,433	16,215	16,183	13,060	12,157
78,834	63,601	56,199	50,206	46,101	46,228
18,800	21,000	23,200	25,400	29,800	32,000
5,342	2,218	1,476	1,375	1,372	1,367
102,976	86,819	80,875	76,981	77,273	79,595
82,332	82,332	82,332	82,332	82,332	82,332
147,180	133,165	121,898	110,797	99,405	89,220
229,512	215,497	204,230	193,129	181,737	171,552
$332,488	$302,316	$285,105	$270,110	$259,010	$251,147


STOCKHOLDERS' EQUITY


UNFILLED ORDERS

1964	1963	1962	1961	1960	1959
$198,827	$176,502	$151,518	$146,140	$140,587	$127,800
12,265	23,101	25,662	6,188	6,105	13,183
5,177					
(1,321)	(776)	(678)	(810)	(552)	(396)
214,948	198,827	176,502	151,518	146,140	140,587
103,354	92,823	83,112	75,215	67,197	59,933
12,825	11,227	10,335	8,673	8,543	7,650
3,613					
(1,209)	(696)	(624)	(776)	(525)	(386)
118,583	103,354	92,823	83,112	75,215	67,197
$ 96,365	$ 95,473	$ 83,679	$ 68,406	$ 70,925	$ 73,390


PROPERTY, PLANT AND EQUIPMENT

Planning for a billion dollar company

Babcock&Wilcox shipments passed the half-billion dollar mark for the first time three years ago. New orders each year since then have averaged considerably above that amount, and the backlog as of December 31 exceeds $1,650,000,000.

Our major market remains the electric utilities, which are growing at a rate that will double power output every ten years. While the demand for conventional power plants will continue strong into the foreseeable future, the use of nuclear power is rapidly increasing.

This accelerated growth has brought with it basic and important changes throughout the Company. Nuclear reactors are not only revolutionizing the way America generates its electricity, they are also fundamentally changing the methods and materials of power generating equipment manufacture. The advent of nuclear power has required skill, machinery and innovation on a scale unprecedented in the history of the industry. Similar changes are taking place in many other product areas contributing to the Company's growth.

To meet this challenge, B&W is accelerating programs to increase and broaden production facilities and strengthen the technological skill of its people at every level of operation.

Product and process development. During 1968, the Company's research and development programs ranged from improving nuclear steam generating systems to the development of new pressure sensing devices.

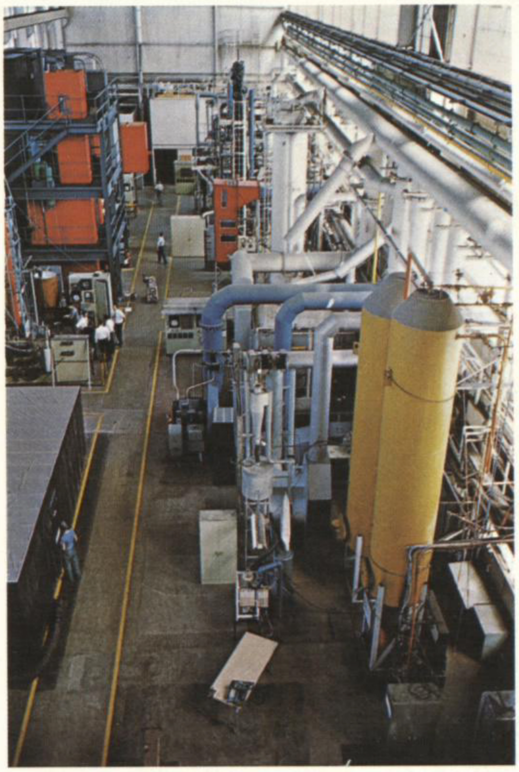
Exhaustive tests were successfully completed to show that significant increases in power output are possible from advanced nuclear systems, further improving the competitive position of B&W's most important new product.

Considerable work was also completed on improved conventional steam generating equipment and new computerized controls.

Several promising smaller items have emerged from research and development efforts. One, a high accuracy oxygen analyzer which monitors stack emissions and aids in combustion and pollution control is now being marketed. Another entails a significant design improvement in pressure measurement using wafer-thin films. Research is also under way on methods of producing relatively inexpensive fiber-reinforced materials for the aerospace and construction industries.

Other projects involve development of improved refractory concretes, furnace lining materials for use above 3200F, electro-magnetic flow meters for process applications, hybrid circuits for the next generation of control computers, and more versatile steels.

Expansion of the Company's R&D efforts includes a Plutonium Development Laboratory recently completed at Lynchburg to explore ways of efficiently fabricating plutonium into reactor fuel.



A diversity of projects now being conducted in the main test bay at B&W's Alliance, Ohio, Research Center include nuclear fuel element evaluation, air pollution control studies, combustion and heat transfer experiments, and pulverized coal tests.

Plutonium created in the reactors of today will be recovered and used to fuel the reactors of tomorrow. The needed manufacturing technology is being developed in these protective glove boxes at B&W's Plutonium Development Laboratory.

New facilities. During 1968, the Company initiated or completed over $38 million in major capital projects in the nuclear field alone. A plant now nearing completion in Lynchburg, Virginia, is the first phase of a commercial nuclear fuel production capability. A new engineering facility in Lynchburg will include a computer center, and also an electronic nuclear reactor simulator for training utility personnel in reactor operations.

A $10 million machining complex with the most advanced equipment available is being built at Barberton, Ohio, for production of reactor components. Extensive additions of machining and welding equipment have been made at the Mount Vernon, Indiana, pressure vessel fabricating facility.

A special metals plant at Beaver Falls, Pennsylvania, completed this year, is a significant addition to B&W's nuclear capability. The facility is designed to meet growing requirements for the small diameter, high nickel content tubing required for nuclear steam generators.

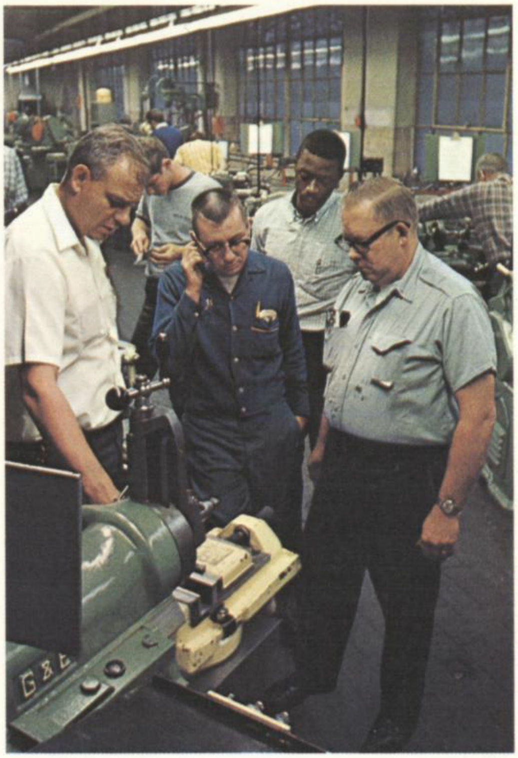
In other product areas, $16 million in capital projects were completed or are in progress. Included was expansion of steelmaking and finishing facilities, as well as additional capacity to make the Company a full-line producer of welding fittings. Capacity for package boilers has been increased at Wilmington, North Carolina. At Milwaukee, Wisconsin, a new drawbench has improved size range and efficiency of cold-drawn tubing production. A consolidation of instrument control and data systems manufactured by Bailey Meter Company Limited in Canada has been provided by extension of the facilities at Pointe-Claire, Quebec.

A new Automated Machine division plant in Rockford, Illinois, provides the space and equipment needed to produce specialized machinery for industry.

Development of people. To meet the requirements of advancing technology, B&W employees are being encouraged to extend their knowledge and occupational skills through participation in a wide variety of internal training programs and outside courses.

Vocational and technical study programs are under way at every division and subsidiary. They range from instruction in new welding techniques and numerical control machining to after-hours sessions in the sciences and management. The Company has long operated schools in several plant locations to train new employees and to upgrade experienced employees in the latest techniques and skills necessary for nuclear work.

Last year more than ten per cent of approximately 32,000 employees —production workers and supervisors, technicians and research scientists, secretaries, salesmen and managers—studied at work or at school in career-oriented programs sponsored by the Company.



B&W jointly sponsors training courses with local schools and colleges for employees to improve their skills in machining and other critical operations.

To keep pace with an advancing technology, Company welding schools at several locations are teaching the latest methods, many of them developed at B&W.

Market report

Electric utilities. The Company received a number of major orders for both nuclear and fossil-fueled steam generating systems in 1968. To meet surging demands for power, utilities are expected to continue their rapid growth and the long-term outlook for equipment suppliers remains good for both fossil and nuclear systems.

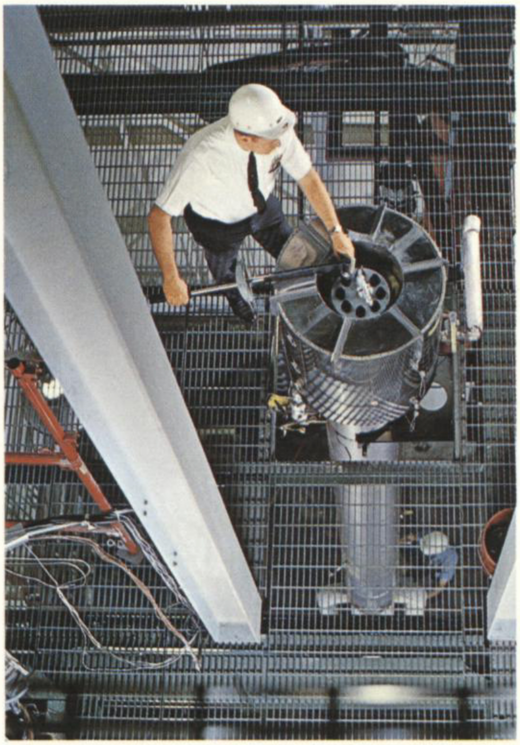
Orders for B&W conventional steam systems were at a high level during the year. Since 1957, when B&W first introduced the supercritical pressure boiler, the Company has sold more than half of the 118 units purchased by utilities.

Contracts for three nuclear steam systems awarded B&W during the year brought the total number of systems sold by the Company since 1966 to eleven. An order from Consumers Power Company for two units included supply of original and reload uranium fuel for the reactors. An 850,000 kilowatt class reactor, also including fuel supply and fabrication, was sold for installation at a nuclear power station to be operated jointly by Toledo Edison Company and The Cleveland Electric Illuminating Company. The Consumers Power installation will provide up to 1,300,000 kilowatts of electrical power as well as steam for use in manufacturing processes. This will mark the first such use of steam produced from nuclear energy in the United States.

Fuel, a significant factor in the economics of nuclear power generation, represents an important B&W product diversification with solid growth potential. The cost of uranium fuel consumed during the life of a reactor may exceed twice the total cost of the original plant. B&W offers a full range of fuel services to its utility customers, from supplying natural uranium to repurchasing spent fuel.

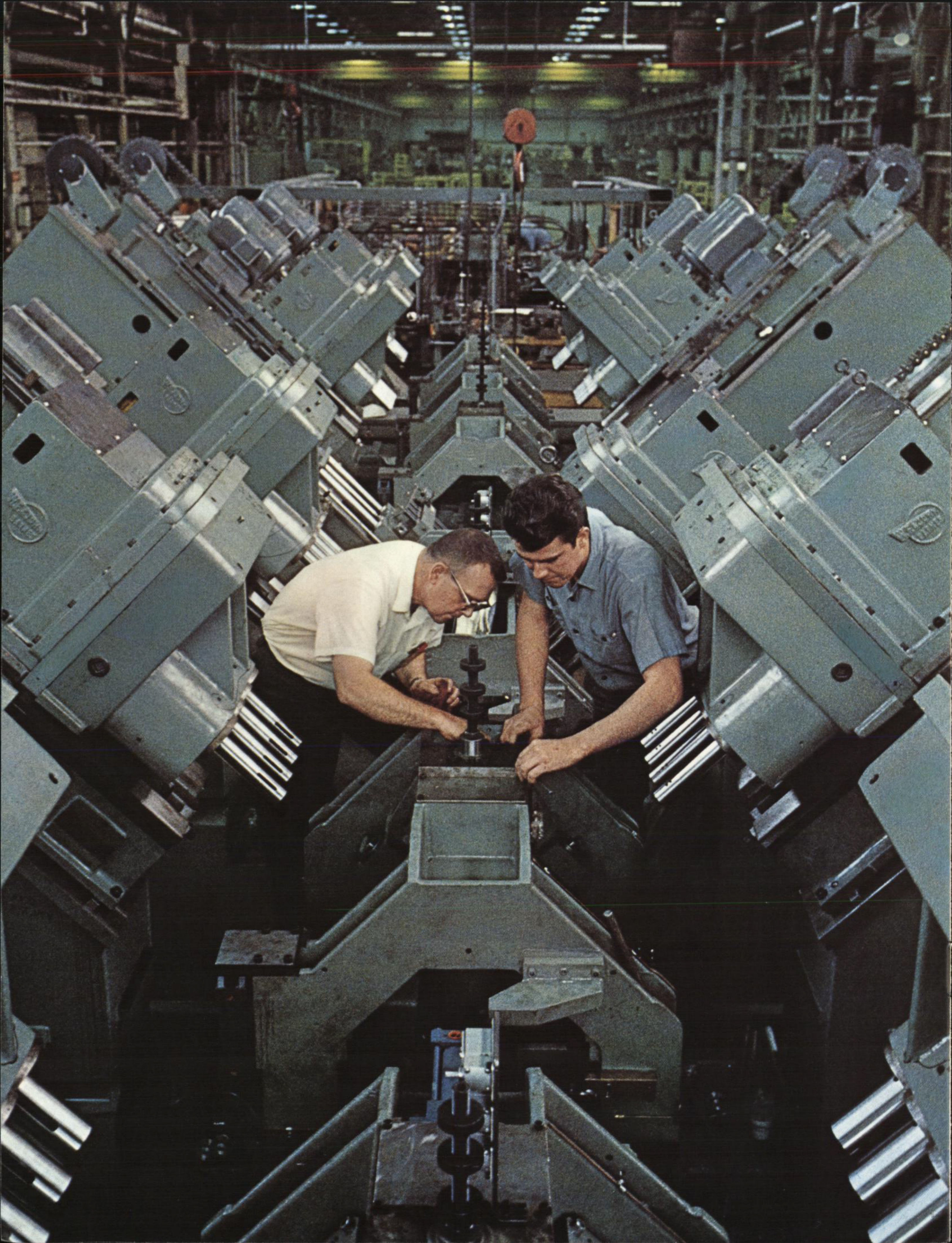
For equipment to answer growing needs in automation and computer control the utility industry continues to turn to Bailey Meter. Bailey has already received contracts for 13 power plant control systems using the 855 computer introduced in 1967. The strong acceptance of this system and its application to a wide range of industrial uses has opened the door to new markets for Bailey Meter.

Diamond Power Specialty Corporation is supplying the control rod drive systems for B&W nuclear reactors and will market the system for installation in other reactors. Another new venture for Diamond is insulation specifically designed to meet nuclear power plant requirements. This all-metal reflective insulation is finding increased acceptance in such application.



Reactor control rod drives are tested under simulated operating conditions at Diamond Power. The drives are a major reactor component. They regulate the nuclear reaction to meet output requirements.

Twelve fossil-fueled boilers with a combined capacity of 3,000,000 kilowatts are located in a three-square mile area outside Los Angeles. Eight of the twelve were manufactured by B&W.



During the year, Babcock & Wilcox Canada Ltd., a major producer of conventional steam generating systems and nuclear components in Canada, began shipping the first of 48 heat exchangers for Ontario Hydro's two-million kilowatt nuclear station. To boost its pump sales to the utility, pulp and paper and other industries, B&W Canada Ltd. recently expanded into the U.S. market. During the year it also obtained manufacturing and sales rights for a well established line of pumps for the nuclear, petrochemical and oil pipe line fields and purchased the condenser pump line of a major manufacturer.

Air Pollution. As a leading manufacturer of fossil-fueled steam generating equipment, B&W is deeply concerned about pollution and the development of feasible control systems to reduce it. To win the battle against pollution will require a wide range of new products to monitor, analyze and control effluents. B&W is developing and marketing products in each of these areas to aid in this fight.

Under a National Air Pollution Control Administration contract, B&W scientists at the Alliance, Ohio, Research Center are evaluating techniques for removing sulfur dioxide by injecting additives directly into a boiler furnace. B&W has a million-dollar contract with TVA to install such a system on two large boilers for experimental purposes. Looking beyond this initial development, B&W is seeking ways to perfect the recovery-type system it believes may lead to the most economical control in the future.

The Company has supplied combination chemical recovery and stream pollution abatement equipment to the pulp and paper industry for many years. A patented magnesium-based recovery system that minimizes both air and water pollution while improving paper quality has met enthusiastic response from both U.S. and foreign paper manufacturers since its introduction a number of years ago.

Industrial. Perhaps the word "mobility" best describes the America we know today. B&W itself is on the move—to enlarge its service to the transportation industry with a wide range of products.

An automatic transfer line nearly as long as two football fields has been engineered and built by W. F. & John Barnes. The equipment will perform 650 separate machining operations in turning out a new engine block for a "big three" auto maker. Large quantities of welded

A paper mill in Florida will use a new B&W-developed process to substantially reduce odors associated with Kraft paper production. B&W has sold four similar units to other large producers.

An automatic transfer line to machine engine blocks for a major automobile manufacturer undergoes pre-shipment tests at W. F. & John Barnes' recently modernized plant in Rockford, Illinois.

and seamless B&W specialty tubing are used in automatic transmissions, steering assemblies, and bearings for both automobiles and railroads.

Diamond Power closed-circuit TV systems are helping improve air traffic control at airports throughout the country. The 89 systems now being installed offer an added margin of safety by permitting air control personnel to scan radar scopes directly from airport towers. The ability of B&W Kaowool insulation to withstand vibration at extreme temperature has earned it a role in the aircraft industry. A leading jet engine manufacturer has specified this ceramic fiber for all of its units.

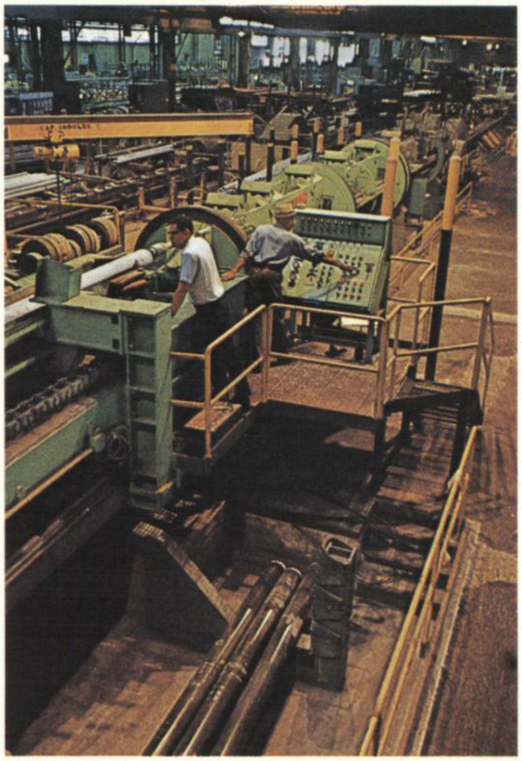
B&W marine boilers power more than half of the U.S. merchant ships in service today. Bailey Meter holds the same position of preeminence in marine power plant controls. During the year B&W was awarded the contract to design and build the boilers for three 36,000 shaft horsepower ships which will be the most powerful cargo vessels ever placed in service. Also in 1968, B&W sold 28 boilers for 14 new C-8 class cargo vessels and Bailey received orders for 10 control systems from four of America's leading shipping lines.

In the next 15 years, demand for pulp and paper products is expected to double and several Company units are working to participate fully in this growth. One B&W development that eliminates much of the odor associated with Kraft paper manufacturing resulted in orders from several major producers during the year.

Another fast growing market served by the Company is the chemical and petroleum field. The first contract for a new B&W boiler designed specifically for this industry was received in late 1968. Created to answer the need for more steam in less space, the boiler operates at higher pressures and temperatures for greater steam cycle efficiency.

Package boilers continue to have a sizable market in the chemical and petroleum as well as other industries. Purchasers of the more than 2,000 package units B&W has thus far delivered have included schools, hospitals, and textile, food and brewery industries.

The long-term outlook for the machine tool industry remains strong and this year the Automated Machine division will reach an all-time high in broaching tool sales. Added to an already established line of high production lathes were a lighter-duty tracer lathe and a numerically-controlled lathe. During the past year this division also



This new drawbench, the largest of its kind, will allow B&W to provide close tolerance cold-drawn tubing to meet growing demand. It is part of a major expansion at the Company's Milwaukee plant.

Consoles for Bailey's new 855 computerized control system undergo pre-shipment check. Thirteen have been sold to utilities. The system is well suited to application in the primary metals and other industries.

introduced an electromechanical broaching machine to help fill customer needs for greater precision and speed.

The steel industry, in an effort to reduce the cost of production, has increased to $2 billion annually its outlay for modernization. As an established supplier to this industry, B&W is providing important auxiliary equipment. A recent development is the gas cleanup system. One large steel producer has been operating the first such B&W unit for more than six months in a successful effort to control air pollution. Three similar systems have been sold for use in Italy.

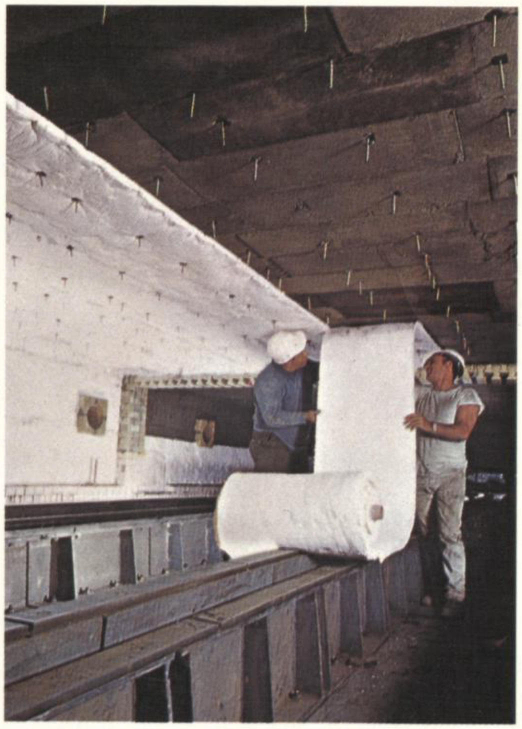
An important new area for ceramic fibers developed by the Company is their use as furnace linings. Other B&W refractories products supplied in large quantities for use in this field include firebrick and Cerox products for applications at high temperatures.

Government. B&W maintained its position during the year as one of the leading suppliers of fuel and main power plant components for the nuclear Navy. In the past two years B&W has quadrupled its capacity in this field. The volume of business in nuclear fuel has grown to such a size that a separate Naval Nuclear Fuel division has been established to handle it.

The past ten years have seen the installation of B&W fuel, reactor vessels and heat exchangers in many of the Navy nuclear submarines. Much of our current effort is directed toward the supply of components for the growing number of nuclear powered surface ships. The Company looks forward to a continuation of this effort for the Navy.

B&W has been selected by the United States Atomic Energy Commission to develop a plant design and safety analysis for a liquid metal cooled fast breeder reactor system rated at one million kilowatts. Development of the reactor, intermediate heat exchanger and steam generator components for this system has started.

Century-Detroit is another B&W unit involved in Government work. It is presently executing a $1.5 million order covering five high-speed precision boring machines for critical tolerance machining of U.S. Army weaponry. Also delivered to the Government was the first of three large internal grinding machines capable of producing finishes to an extreme degree of accuracy.



Furnace linings are an important application for B&W Kaowool ceramic fiber. Lightweight Kaowool makes installation easier, less costly. It is also used extensively in jet aircraft engines.

This B&W gas cleanup system at the oxygen converter facility of a large steel producer cleans stack exhaust gases by "scrubbing" them with high velocity water. The system has been more than 99 per cent efficient during six months of operation.

The Babcock & Wilcox Company Headquarters Offices, 161 East 42nd Street, New York, N.Y. 10017 • Sales Offices in principal cities

Divisions and Subsidiaries

AUTOMATED MACHINE DIVISION
- W. F. & JOHN BARNES • Rockford, Ill.
- CENTURY-DETROIT • Detroit, Mich.
- DETROIT BROACH & MACHINE • Rochester, Mich. • Greer, S.C.

NAVAL NUCLEAR FUEL DIVISION • Lynchburg, Va.

POWER GENERATION DIVISION • Barberton, Ohio • Brunswick, Ga. • Lynchburg, Va. • Mount Vernon, Ind. • Paris, Texas
West Point, Miss. • Wilmington, N.C.

REFRACTORIES DIVISION • Augusta, Ga. • Hephzibah, Ga.
- STANDARD REFRACTORIES LIMITED • Burlington, Ont., Canada

RESEARCH AND DEVELOPMENT DIVISION • Alliance, Ohio • Lynchburg, Va.

TUBULAR PRODUCTS DIVISION • Alliance, Ohio • Beaver Falls, Pa. • Elkhart, Ind. • Milwaukee, Wis.
- BABCOCK & WILCOX TUBULAR PRODUCTS LIMITED • Toronto, Ont., Canada

BABCOCK & WILCOX CANADA LTD. • Galt, Ont., Canada

BAILEY METER COMPANY • Cleveland, Ohio • Wickliffe, Ohio
- BELFAB • Daytona Beach, Fla.
- BAILEY METER AUSTRALIA PTY. LIMITED • Regents Park, N.S.W., Australia
- BAILEY METER COMPANY LIMITED • Pointe-Claire, Que., Canada
- FIBRAS CERAMICAS INC. • Ponce, Puerto Rico

DIAMOND POWER SPECIALTY CORPORATION • Lancaster, Ohio • New Orleans, La.
- MIRROR INSULATION • Lambertville, N. J. • Lancaster, Ohio
- DIAMOND CANAPOWER LTD. • Burlington, Ont., Canada
- DIAMOND POWER SPECIALTY LIMITED • Dumbarton, Scotland
- DIAMOND SUPERIOR AB • Sundbyberg, Sweden

Products

AIR POLLUTION CONTROL SYSTEMS • Combustion Control Systems • Filter Systems • Gas Absorption Systems • Smoke and Dust Density Recorders • Wet Scrubber Systems

ATOMIC ENERGY SERVICES • Fuel Management Services • Advanced Fuels Development • Irradiation and Hot Cell Services

AUTOMATION EQUIPMENT AND CONTROL SYSTEMS • Computers and Information Systems for Industrial Processes • Industrial (Closed-Circuit) Television

MACHINE TOOLS AND RELATED PRODUCTS • Hydrostatic Bearings • Precision Boring Machines • Broaching Machines and Broaches • Large I.D. Grinders • Hydraulic Accessories • Production Tracer Lathes • Numerical Control Machines • Special Machines • Transfer or Multi-Station Machines

POWER GENERATION EQUIPMENT • Complete Nuclear and Fossil-Fuel Fired Steam Generating Systems • Nuclear Fuel • Industrial Steam Generating Equipment • Marine Boilers • Regenerative and Tubular Air Heaters • Cleaning Systems for Heat Transfer Surfaces • Control and Performance Computers • Automatic Controls and Instruments • Nuclear Reactor Control-Rod Drives • Superheaters • Economizers • Coal Feeders • Water-Level Gauges

REFRACTORIES PRODUCTS • Kaolin Clays • Ceramic Fibers • Insulating Firebrick • Specialty Firebrick • Plastics, Mortars, Castables, Ramming Mixes and Calcines • Special Oxide Refractories • Silicon Carbide

SPECIAL EQUIPMENT • Precision Welded Bellows • Alloy Castings • Pulverized-Coal Injection Systems for Blast Furnaces • Hollow Forgings for Steam Piping and Other Uses • Tubular Hoods for Basic Oxygen and Electric Furnaces • Reflective Metallic Thermal Insulation • Heavy Pressure Vessels and Heat Exchangers • Centrifugal Pumps • Recovery Processes for the Pulp Industry • Stud Tensioners

TUBULAR PRODUCTS • Stainless, Alloy or Carbon Steel Seamless and Welded Tubes and Pipe for all Types of Pressure and Mechanical Applications • Extrusions—Tubular and Solid Shapes • Welding Fittings and Flanges • Seamless Rolled Rings

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An 800-ton nuclear vessel dwarfs onlookers as it leaves B&W's Mount Vernon facility. It is 72 ft. long and 22 ft. in diameter. Heat from the nuclear reaction contained in the vessel will produce steam sufficient to generate 800,000 kilowatts of electrical power. The Company has orders for more than 30 other commercial reactor vessels of varying size and type.

250-TONS

Babcock & Wilcox Annual Report 1968

Our 101st Year of Helping Industry Serve America